

CITY OF ODEBOLT

INDEPENDENT AUDITOR'S REPORTS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2006

NEWS RELEASE

FOR RELEASE

Hunzelman, Putzier & Co., PLC today released an audit report on the City of Odebolt, Iowa.

The City's receipts totaled \$725,794 for the year ended June 30, 2006, and included \$242,285 in property tax; \$303,956 from charges for services; \$117,878 from operating grants, contributions, and restricted interest; \$8,000 from capital grants, contributions and restricted interest; \$7,985 from utility excise taxes; \$14,854 from local option sales tax; \$23,993 from unrestricted investment earnings; and \$6,843 from other general receipts.

Disbursements for the year totaled \$729,794 and included \$159,949 for public works, \$105,450 for culture and recreation, and \$98,470 for public safety. Also, disbursements for business type activities totaled \$263,566.

This report contains recommendations to the City Council and their indicated responses to the recommendations.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

CITY OF ODEBOLT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2006

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CITY OF ODEBOLT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2006)		
Ronald J. Rex	Mayor	January, 2006
Keith Flink	Council Member	January, 2006
Mark Hansen	Council Member	January, 2006
James Scott	Council Member	January, 2006
Todd Bengford	Council Member	January, 2008
R.G. Hemphill	Council Member	January, 2008
Joan Godbersen	Clerk	Indefinite
Joe Heidenreich	Attorney	Indefinite
(After January, 2006)		
Ronald J. Rex	Mayor	January, 2010
Todd Bengford	Council Member	January, 2008
R. G. Hemphill	Council Member	January, 2008
Keith Flink	Council Member	January, 2010
Mike Hoefling	Council Member	January, 2010
James Scott	Council Member	January, 2010
Joan Godbersen	Clerk	Indefinite
Joe Heidenreich	Attorney	Indefinite

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Odebolt, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Odebolt, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Odebolt, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2006, on our consideration of City of Odebolt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 17 through 18 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Odebolt, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Odebolt's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Henzelman, Putzler & Co.

October 25, 2006

CITY OF ODEBOLT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest		Business Type Activities	Total
	Disbursements	Charges for Service			Governmental Activities		
Functions/Programs:							
Governmental activities:							
Public safety	\$ 98,470	\$ 22,652	\$ -	\$ -	\$ (75,818)	\$ -	\$ (75,818)
Public works	159,949	1,372	96,535	-	(62,042)	-	(62,042)
Health and social services	3,070	-	-	-	(3,070)	-	(3,070)
Culture and recreation	105,450	14,123	21,343	8,000	(61,984)	-	(61,984)
Community and economic development	3,205	-	-	-	(3,205)	-	(3,205)
General government	60,713	1,395	-	-	(59,318)	-	(59,318)
Debt service	35,371	-	-	-	(35,371)	-	(35,371)
Total governmental activities	466,228	39,542	117,878	8,000	(300,808)	-	(300,808)
Business type activities:							
Water	112,915	135,214	-	-	-	22,299	22,299
Sewer	81,064	59,971	-	-	-	(21,093)	(21,093)
Solid waste	49,124	47,492	-	-	-	(1,632)	(1,632)
Storm water	4,776	6,350	-	-	-	1,574	1,574
Recycle	15,137	15,137	-	-	-	-	-
Consumer deposit	550	250	-	-	-	(300)	(300)
Total business type activities	263,566	264,414	-	-	-	848	848
Total	\$ 729,794	\$ 303,956	\$ 117,878	\$ 8,000	(300,808)	848	(299,960)
General Receipts:							
Property tax levied for:							
General purposes					217,540	-	217,540
Debt service					24,745	-	24,745
Local option sales tax					14,854	-	14,854
Unrestricted interest on investments					20,197	3,796	23,993
Dividends					2,000	-	2,000
Utility excise taxes					7,985	-	7,985
Special assessments					261	-	261
Sale of assets					3,950	-	3,950
Miscellaneous					632	-	632
Total general receipts and transfers					292,164	3,796	295,960

(Continued)

CITY OF ODEBOLT
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit A
(Continued)

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest		Business Type Activities	Total
	Disbursements	Charges for Service		Governmental Activities		
Change in cash basis net assets				\$ (8,644)	\$ 4,644	\$ (4,000)
Cash basis net assets beginning of year				<u>172,315</u>	<u>493,216</u>	<u>665,531</u>
Cash basis net assets end of year				<u>\$ 163,671</u>	<u>\$ 497,860</u>	<u>\$ 661,531</u>
Cash Basis Net Assets						
Restricted:						
Streets				\$ 23,557	\$ -	\$ 23,557
Debt service				-	42,267	42,267
Other purposes				35,369	-	35,369
Unrestricted				<u>104,745</u>	<u>455,593</u>	<u>560,338</u>
Total cash basis net assets				<u>\$ 163,671</u>	<u>\$ 497,860</u>	<u>\$ 661,531</u>

See notes to financial statements.

CITY OF ODEBOLT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B

	<u>Special Revenue</u>				
	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>	<u>Non-major</u>	<u>Total</u>
Receipts:					
Property taxes	\$ 168,193	\$ -	\$ 44,525	\$ 29,567	\$ 242,285
Other city tax	5,539	-	1,469	15,831	22,839
Licenses and permits	1,395	-	-	-	1,395
Use of money and property	20,110	-	-	87	20,197
Intergovernmental	41,254	96,535	-	-	137,789
Special assessments	261	-	-	-	261
Miscellaneous	28,868	-	-	-	28,868
Total receipts	<u>265,620</u>	<u>96,535</u>	<u>45,994</u>	<u>45,485</u>	<u>453,634</u>
Disbursements:					
Operating:					
Public safety	98,470	-	-	-	98,470
Public works	65,101	94,848	-	-	159,949
Health and social services	3,070	-	-	-	3,070
Culture and recreation	105,450	-	-	-	105,450
Community and economic development	3,205	-	-	-	3,205
General government	60,713	-	-	-	60,713
Debt service	9,809	-	-	25,562	35,371
Total disbursements	<u>345,818</u>	<u>94,848</u>	<u>-</u>	<u>25,562</u>	<u>466,228</u>
Excess (deficiency) of receipts over disbursements	<u>(80,198)</u>	<u>1,687</u>	<u>45,994</u>	<u>19,923</u>	<u>(12,594)</u>
Other financing sources (uses):					
Sale of capital assets	3,950	-	-	-	3,950
Operating transfers in	46,760	-	-	-	46,760
Operating transfers out	-	-	(46,760)	-	(46,760)
Total other financing sources (uses)	<u>50,710</u>	<u>-</u>	<u>(46,760)</u>	<u>-</u>	<u>3,950</u>
Net change in cash balances	(29,488)	1,687	(766)	19,923	(8,644)
Cash balances beginning of year	<u>134,233</u>	<u>21,870</u>	<u>8,555</u>	<u>7,657</u>	<u>172,315</u>
Cash balances end of year	<u>\$ 104,745</u>	<u>\$ 23,557</u>	<u>\$ 7,789</u>	<u>\$ 27,580</u>	<u>\$ 163,671</u>

(Continued)

CITY OF ODEBOLT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit B
(Continued)

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>	<u>Non-major</u>	<u>Total</u>
Cash Basis Fund Balances					
Unreserved:					
General	\$ 104,745	\$ -	\$ -	\$ -	\$ 104,745
Special revenue	<u>-</u>	<u>23,557</u>	<u>7,789</u>	<u>27,580</u>	<u>58,926</u>
Total cash basis fund balances	<u>\$ 104,745</u>	<u>\$ 23,557</u>	<u>\$ 7,789</u>	<u>\$ 27,580</u>	<u>\$ 163,671</u>

See notes to financial statements.

CITY OF ODEBOLT
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Exhibit C

	<u>Water</u>	<u>Sewer</u>	<u>Garbage</u>	<u>Non-major</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 132,336	\$ 59,721	\$ 46,557	\$ 21,487	\$ 260,101
Miscellaneous	<u>2,878</u>	<u>250</u>	<u>935</u>	<u>250</u>	<u>4,313</u>
Total operating receipts	135,214	59,971	47,492	21,737	264,414
Operating disbursements:					
Business type activities	<u>77,664</u>	<u>81,064</u>	<u>49,124</u>	<u>20,463</u>	<u>228,315</u>
Excess (deficiency) of operating receipts over operating disbursements	<u>57,550</u>	<u>(21,093)</u>	<u>(1,632)</u>	<u>1,274</u>	<u>36,099</u>
Non-operating receipts (disbursements):					
Interest on investments	827	1,146	1,823	-	3,796
Debt service	<u>(35,251)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(35,251)</u>
Total non-operating receipts (disbursements)	<u>(34,424)</u>	<u>1,146</u>	<u>1,823</u>	<u>-</u>	<u>(31,455)</u>
Net change in cash balances	23,126	(19,947)	191	1,274	4,644
Cash balances beginning of year	<u>133,845</u>	<u>298,111</u>	<u>58,196</u>	<u>3,064</u>	<u>493,216</u>
Cash balances end of year	<u>\$ 156,971</u>	<u>\$ 278,164</u>	<u>\$ 58,387</u>	<u>\$ 4,338</u>	<u>\$ 497,860</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 42,267	\$ -	\$ -	\$ -	\$ 42,267
Unreserved	<u>114,704</u>	<u>278,164</u>	<u>58,387</u>	<u>4,338</u>	<u>455,593</u>
Total cash basis fund balances	<u>\$ 156,971</u>	<u>\$ 278,164</u>	<u>\$ 58,387</u>	<u>\$ 4,338</u>	<u>\$ 497,860</u>

See notes to financial statements.

CITY OF ODEBOLT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Odebolt is a political subdivision of the State of Iowa located in Sac County. It was first incorporated in 1877 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and garbage services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Odebolt has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to: Sac County Assessor's Conference Board, Sac County Joint E911 Board, Sac County Landfill Commission, and Sac County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF ODEBOLT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for taxes received to be used solely for employee payroll taxes and health insurance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's waste management system.

C. Measurement Focus and Basis of Accounting

City of Odebolt maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

CITY OF ODEBOLT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting - (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function.

2. CASH AND INVESTMENTS

The City's deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 40.

3. NOTES AND BONDS PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>General Obligation Notes</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 24,030	\$11,980	\$ 21,000	\$ 13,273	\$ 45,030	\$ 25,253
2008	25,590	10,970	22,000	12,532	47,590	23,502
2009	27,171	9,864	23,000	11,755	50,171	21,619
2010	27,773	8,684	24,000	10,943	51,773	19,627
2011	28,398	7,482	25,000	10,096	53,398	17,578
2012-2016	110,962	19,256	135,000	36,887	245,962	56,143
2017-2021	16,000	920	126,000	11,296	142,000	12,216
	<u>\$259,924</u>	<u>\$69,156</u>	<u>\$376,000</u>	<u>\$106,782</u>	<u>\$635,924</u>	<u>\$175,938</u>

CITY OF ODEBOLT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3. BONDS AND NOTES PAYABLE - (Continued)

The resolutions providing for the issuance of water revenue bonds include the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate water revenue sinking account for the purpose of making the bond principal and interest payments when due.

The City has established the sinking account required by the water revenue bond resolution.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2006, was \$11,403, equal to the required contribution for the year.

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$7,946</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

6. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Employee Benefits	<u>\$ 46,760</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF ODEBOLT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

7. INTERGOVERNMENTAL AGREEMENT

The City has entered into an agreement with Sac County Solid Waste Agency in accordance with Chapter 28E of the Code of Iowa, to provide for the disposal of solid waste. For the year ended June 30, 2006, \$16,142 was paid for landfill fees pursuant to the agreement.

State and federal laws and regulations require the Agency to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs to the Agency for compliance with these requirements have been estimated at \$732,414 according to the Agency's latest audit report available, which was for the year ended June 30, 2005.

The Agency has begun to accumulate resources to fund these costs and, at June 30, 2005, assets of \$132,977 are restricted for these purposes.

8. RISK MANAGEMENT

City of Odebolt is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. SERVICE AGREEMENTS

The City has an agreement with Rudd Sanitation and Recycling for refuse collection and hauling of solid waste and recyclable materials. Payments under this agreement were \$15,137 for the year ended June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ODEBOLT
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 242,285	\$ -	\$ 242,285	\$ 242,416	\$ 242,416	\$ (131)
Other city tax	22,839	-	22,839	7,985	7,985	14,854
Licenses and permits	1,395	-	1,395	1,500	1,500	(105)
Use of money and property	20,197	3,796	23,993	11,195	11,195	12,798
Intergovernmental	137,789	-	137,789	133,620	133,620	4,169
Charges for service	-	260,101	260,101	255,700	255,700	4,401
Special assessments	261	-	261	-	-	261
Miscellaneous	28,868	4,313	33,181	16,343	21,343	11,838
Total receipts	<u>453,634</u>	<u>268,210</u>	<u>721,844</u>	<u>668,759</u>	<u>673,759</u>	<u>48,085</u>
Disbursements:						
Public safety	98,470	-	98,470	102,935	108,935	10,465
Public works	159,949	-	159,949	173,600	173,600	13,651
Health and social services	3,070	-	3,070	3,200	3,200	130
Culture and recreation	105,450	-	105,450	96,325	111,325	5,875
Community and economic development	3,205	-	3,205	3,300	3,300	95
General government	60,713	-	60,713	63,000	63,000	2,287
Debt service	35,371	-	35,371	25,595	25,595	(9,776)
Capital projects	-	-	-	-	35,000	35,000
Business type activities	-	263,566	263,566	243,850	321,850	58,284
Total disbursements	<u>466,228</u>	<u>263,566</u>	<u>729,794</u>	<u>711,805</u>	<u>845,805</u>	<u>116,011</u>
Excess (deficiency) of receipts over disbursements	(12,594)	4,644	(7,950)	(43,046)	(172,046)	164,096
Other financing sources, net	<u>3,950</u>	<u>-</u>	<u>3,950</u>	<u>-</u>	<u>-</u>	<u>3,950</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,644)	4,644	(4,000)	(43,046)	(172,046)	168,046
Balances, beginning of year	<u>172,315</u>	<u>493,216</u>	<u>665,531</u>	<u>618,408</u>	<u>618,408</u>	<u>47,123</u>
Balances, end of year	<u>\$ 163,671</u>	<u>\$ 497,860</u>	<u>\$ 661,531</u>	<u>\$ 575,362</u>	<u>\$ 446,362</u>	<u>\$ 215,169</u>

See accompanying independent auditor's report.

CITY OF ODEBOLT
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$134,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service function.

OTHER SUPPLEMENTARY INFORMATION

CITY OF ODEBOLT
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 1

	<u>Special Revenue</u>				
	<u>Emergency</u>	<u>Centennial</u>	<u>Local Option Sales Tax</u>	<u>Debt Service</u>	<u>Total</u>
Receipts:					
Property tax	\$ 4,822	\$ -	\$ -	\$ 24,745	\$ 29,567
Other city tax	160	-	14,854	817	15,831
Use of money and property	-	87	-	-	87
Total receipts	4,982	87	14,854	25,562	45,485
Disbursements:					
Debt service	-	-	-	25,562	25,562
Net change in cash balances	4,982	87	14,854	-	19,923
Cash balances beginning of year	5,236	2,421	-	-	7,657
Cash balances end of year	<u>\$ 10,218</u>	<u>\$ 2,508</u>	<u>\$ 14,854</u>	<u>\$ -</u>	<u>\$ 27,580</u>
Cash Basis Fund Balances					
Unreserved:					
Special Revenue	<u>\$ 10,218</u>	<u>\$ 2,508</u>	<u>\$ 14,854</u>	<u>\$ -</u>	<u>\$ 27,580</u>
Total cash basis fund balances	<u>\$ 10,218</u>	<u>\$ 2,508</u>	<u>\$ 14,854</u>	<u>\$ -</u>	<u>\$ 27,580</u>

See accompanying independent auditor's report.

CITY OF ODEBOLT
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

	Storm Water	Recycle	Consumer Deposit	Total
Operating receipts:				
Charges for service	\$ 6,350	\$ 15,137	\$ -	\$ 21,487
Miscellaneous	-	-	250	250
Total operating receipts	6,350	15,137	250	21,737
Operating disbursements:				
Business type activities	4,776	15,137	550	20,463
Net change in cash balances	1,574	-	(300)	1,274
Cash balances beginning of year	1,717	117	1,230	3,064
Cash balances end of year	<u>\$ 3,291</u>	<u>\$ 117</u>	<u>\$ 930</u>	<u>\$ 4,338</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ 3,291</u>	<u>\$ 117</u>	<u>\$ 930</u>	<u>\$ 4,338</u>

See accompanying independent auditor's report.

CITY OF ODEBOLT
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2006

Schedule 3

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End Of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Water	October 1, 1997	5.00 - 5.75%	\$ 200,000	\$ 146,000	\$ -	\$ 8,000	\$ 138,000	\$ 8,018	\$ -
Fire equipment note	March 5, 2004	3.69%	<u>160,000</u>	<u>136,226</u>	<u>-</u>	<u>14,302</u>	<u>121,924</u>	<u>5,090</u>	<u>-</u>
			<u>\$ 360,000</u>	<u>\$ 282,226</u>	<u>\$ -</u>	<u>\$ 22,302</u>	<u>\$ 259,924</u>	<u>\$ 13,108</u>	<u>\$ -</u>
Revenue bonds:									
Water	December 15, 1999	3.53%	<u>\$ 688,000</u>	<u>\$ 397,000</u>	<u>\$ -</u>	<u>\$ 21,000</u>	<u>\$ 376,000</u>	<u>\$ 14,014</u>	<u>\$ -</u>

See accompanying independent auditor's report.

CITY OF ODEBOLT
NOTE AND BOND MATURITIES
JUNE 30, 2006

Schedule 4

General Obligation Notes

<u>Water Improvement</u>			<u>Fire Equipment</u>	
<u>Issued</u>			<u>Issued March 5, 2004</u>	
<u>October 1, 1997</u>				
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2007	5.00%	\$ 9,000	3.69%	\$ 121,924
2008	5.25	10,000		
2009	5.25	11,000		
2010	5.25	11,000		
2011	5.50	11,000		
2012	5.50	12,000		
2013	5.50	13,000		
2014	5.75	14,000		
2015	5.75	15,000		
2016	5.75	16,000		
2017	5.75	16,000		
		<u>\$ 138,000</u>		

Payments, including
interest are \$9,696 due
each May 1 and November 1
until November 1, 2013

Revenue Bonds
Water Improvement
Issued December 15, 1999

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2007	3.53%	\$ 21,000
2008	3.53	22,000
2009	3.53	23,000
2010	3.53	24,000
2011	3.53	25,000
2012	3.53	25,000
2013	3.53	26,000
2014	3.53	27,000
2015	3.53	28,000
2016	3.53	29,000
2017	3.53	30,000
2018	3.53	31,000
2019	3.53	32,000
2020	3.53	33,000
		<u>\$ 376,000</u>

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.
JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Odebolt, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Odebolt, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Odebolt's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Odebolt's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Odebolt's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Odebolt, and other parties to whom City of Odebolt may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Odebolt during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

October 25, 2006

Hunzelman, Putzler & Co.

CITY OF ODEBOLT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation - We realize that with a limited number of employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - All invoices require the approval of the department head and three Council members. All invoices are reviewed on an individual basis at the regular monthly meeting. In addition to the Clerk's signature, all checks require the signature of the Mayor or Mayor Pro-tem.

Conclusion - Response accepted.

- I-B-06 Documentation Supporting Expenses - There were some charges on credit cards which were not supported by proper documentation. As a result we could not determine if these expenses were a proper expenditure of City funds.

Recommendation - The City should require that all original documents supporting an expense be attached and approved before payment is made.

Response - All charges paid by the City on the credit card were actual City expenses. In the future, the original documents supporting an expense will be attached and approved by the City Council.

Conclusion - Response accepted.

- I-C-06 Fire Department Funds - The Fire Department currently maintains separate bank accounts which are not included in the City's financial records. This is not a separate non-profit corporation, but is a department which was established by a City ordinance. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

CITY OF ODEBOLT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements: (Continued)

I-C-06 Fire Department Funds - (Continued)

Response - The City has allowed the Fire Department to maintain separate bank accounts for many years. We are comfortable with the City's current system and we wish to continue allowing the Fire Department to retain their own accounts. The Fire Department is a department established by City Ordinance and ultimately they are under the jurisdiction of the Mayor and City Council.

Conclusion - Response acknowledged, however, it appears there are disbursements that may be in violation of the Code of Iowa which requires all disbursements of City funds to be budgeted. You should contact your City attorney to review the legality of these disbursements.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future we will amend the budget in a timely manner.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mark Hansen, Council Member, owner of Mark Hansen's Rex Chevrolet	Vehicle repairs	\$1,935

CITY OF ODEBOLT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting - (Continued)

II-D-06 Business Transactions - (Continued)

In accordance with chapter 362.5(11) of the Code of Iowa, the above does not appear to be a conflict of interest since total transactions were less than \$2500 during the fiscal year.

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We have requested and are currently receiving both the front and the back of each cancelled check.

Conclusion - Response accepted.

II-I-06 Debt Payments - Payments on the City's general obligation debt were made from the general fund.

Recommendation - Payments made on general obligation debt should only be made from the debt service fund.

Response - In the future, general obligation debt will be paid from the debt service fund.

Conclusion - Response accepted.